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# **37<sup>TH</sup> Annual Report**

## **2011 - 2012**

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***Algonquin Forestry Authority***

# Thirty- seventh Annual Report 2011 - 2012

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**TO HIS HONOUR**  
The Lieutenant Governor  
of the Province of Ontario

## **MAY IT PLEASE YOUR HONOUR**

The undersigned begs respectfully to present to Your Honour the Annual Report of the Algonquin Forestry Authority for the year beginning April 1, 2011 and ending March 31, 2012.

THE HONOURABLE MICHAEL GRAVELLE  
Minister



**Forestry  
Algonquin  
Authority**

THE HONOURABLE MICHAEL GRAVELLE  
Minister of Natural Resources

Honourable Sir:

I have the honour to submit to you the Annual Report of the Algonquin Forestry Authority for the year beginning April 1, 2011 and ending March 31, 2012.

DAVID STEWART  
Chair

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The Algonquin Forestry Authority (AFA) operates under the Algonquin Forestry Authority Act, 1990. This legislation sets out the management, objectives and powers of the AFA. Responsibilities in Algonquin Provincial Park include:

- ▶ Ensuring the sustainable management of Algonquin's forests
- ▶ Planning of all forestry operations
- ▶ Harvesting and distribution of wood products to mills
- ▶ Monitoring forestry operations

All forestry activities are carried out under the direction of a Ministry of Natural Resources' approved Forest Management Plan (FMP). These activities are subject to an Independent Forest Audit every five years and the audit results are tabled in the Ontario legislature and made available to the public. In addition, the Algonquin Park forest is certified to Canada's national forest certification standard CSA Z-809. This certification demonstrates the Authority's commitment to sustainable forest management and provides the public access to results from independent forest audits to defined standards.

A key component of the CSA Z-809 standard is the AFA's environmental management system (EMS). The EMS has been registered to the International Standards Organization (ISO) 14001 standard since 2001. Key components of the EMS are prevention of pollution,

continual improvement and compliance with applicable laws and guidelines.

AFA receives management direction from several different plans and legislation, but its Sustainable Forest Management (SFM) Policy guides its day-to-day activities.

AFA's commitment to SFM can be found in its Vision Statement:

*To achieve the highest standards of sustainable forest management practices, in order to maintain Park values for future generations.*

The Authority applies the principles of SFM to balance the public's concern for protecting Park values. Protection of recreation, fisheries, wildlife habitat and natural and cultural heritage values is of utmost importance while maintaining a supply of forest products to mills dependent on Park timber. Harvesting is carefully regulated to minimize impacts on other forest values.

The Authority contracts out both harvesting and forest management work to companies from communities in the region. The timber harvested supports 12 mills in communities such as Huntsville, Whitney, Madawaska, Pembroke, Killaloe, Eganville and Rutherglen. Another five to ten mills receive periodic supplies.



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by David Stewart

I am honoured to have been appointed Chair of the Authority's Board of Directors in March 2012 and pleased to deliver my first annual message. Previously I sat as Vice-Chair of the board; Hugh Christie (past Chair) left the board in December 2011. David Sharpe from Toronto was appointed as a director in May 2011. William Dickinson from Bracebridge, Karen LeClerc of Laurention Hills and Terrence Mullin from Killaloe were all re-appointed for another term in December 2011.

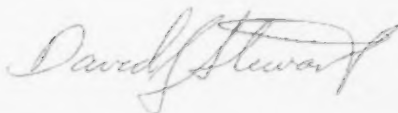
Having worked as a forester for most of my career, I understand the importance of the forest industry culture to the communities adjacent to Algonquin Park. Although the 2011-12 fiscal year was a very challenging year for the Authority, the financial results were positive and are explained in the "Financial Results" section of the report.

Continuing issues include weak market demand for low-end products and weak lumber prices. We are optimistic that the worst of the downturn is behind us and are cautiously optimistic as we move forward.

Staff were busy implementing year two of the 2010-2020 Forest Management Plan. AFA operations in Algonquin Park are certified to the CSA Z809 Standard. In December 2011, AFA started the process of updating the Sustainable Forest Management Plan to the new CAN/CSA Z809-08 certification standard. The Authority's Environmental Management System is also registered to the ISO 14001 Standard.

Effective January 2012, Shaun Dombroskie assumed the duties as Monitoring and Measurement Supervisor in Pembroke and I welcome him to this challenging position.

The Board would like to congratulate all forestry contractors, their employees, and AFA staff on meeting the Authority's objectives and their continued dedication to sustainable forest management in Algonquin Provincial Park.



The approved 2010-2020 Forest Management Plan (FMP) for the Algonquin Park Forest details the goals, objectives and strategies for the ten-year period and outlines specific operations for the first 5-year term for 2010-2015. Forest management activities in Algonquin Park must follow FMP prescriptions.

To implement forest management systems in Algonquin Park it is first necessary to designate which trees are to be harvested and which ones are to be retained, while protecting other resource values. This is done by skilled tree markers who follow the prescriptions prepared by Registered Professional Foresters in the Forest Management Plan. The partial harvesting systems used in Algonquin Park rely heavily on natural regeneration. To date, this has been largely successful. Tree marking was carried out on 6,653 hectares in 2011-2012.

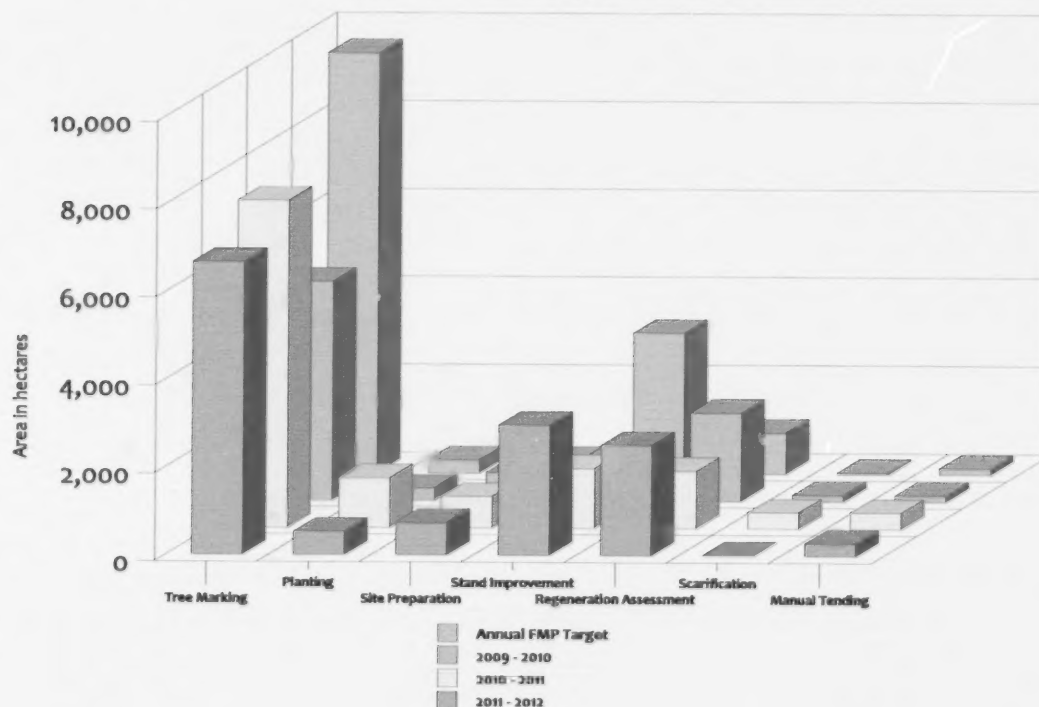
Trees planted in Algonquin Park are grown from seed sources appropriate for planting within the Park. A total of 494,000 tree seedlings were planted on 524 hectares in 2011. Private nurseries are growing 480,000 seedlings for planting in spring 2012. About 733 hectares were site prepared for planting in future years.

Manual tending was performed on 278 hectares to release established white pine and red pine regeneration from competing vegetation. A further 78 hectares of red pine and jack pine were precommercially thinned and 702 hectares of evenaged understory improvement work was completed in order to improve light conditions for regeneration establishment.

Regeneration assessments were conducted on over 2,500 hectares to ensure that regeneration treatments are progressing as planned. Results of 'Free to Grow' assessments are reported in the Management Unit Annual Report in November each year. New technology has recently been developed by AFA to enhance regeneration survey quality and production. Stand improvement was completed on 2,065 hectares to assist growth of residual trees and natural regeneration in areas managed under the selection system. One hundred and ten hectares of hardwood polewood improvement work was completed.

The 2011-2012 forest management program is illustrated below and is compared to annual FMP targets. The program was the second year of the approved 2010-2020 FMP.

## Forest Management Summary



The 2010-2020 Forest Management Plan for Algonquin Park states that a sustainable annual harvest of 783,075 cubic metres (m<sup>3</sup>) is available from the forest. The 2011-2012 harvest level from the park was 311,915 m<sup>3</sup> (source: AFA Accumulated Sales Data) which is within the sustainable level that the Algonquin forest can provide. The harvest was down 80,133 m<sup>3</sup> or 20.4% from the 2010-2011 fiscal year. Volume harvested in 2011-2012 is illustrated in the following graph and is compared to the previous two years.

Most market sectors did not improve in 2011-2012 compared to 2010-2011. Poor demand is related to the continued decline in the United States' housing market and reduced global demand for wood products.

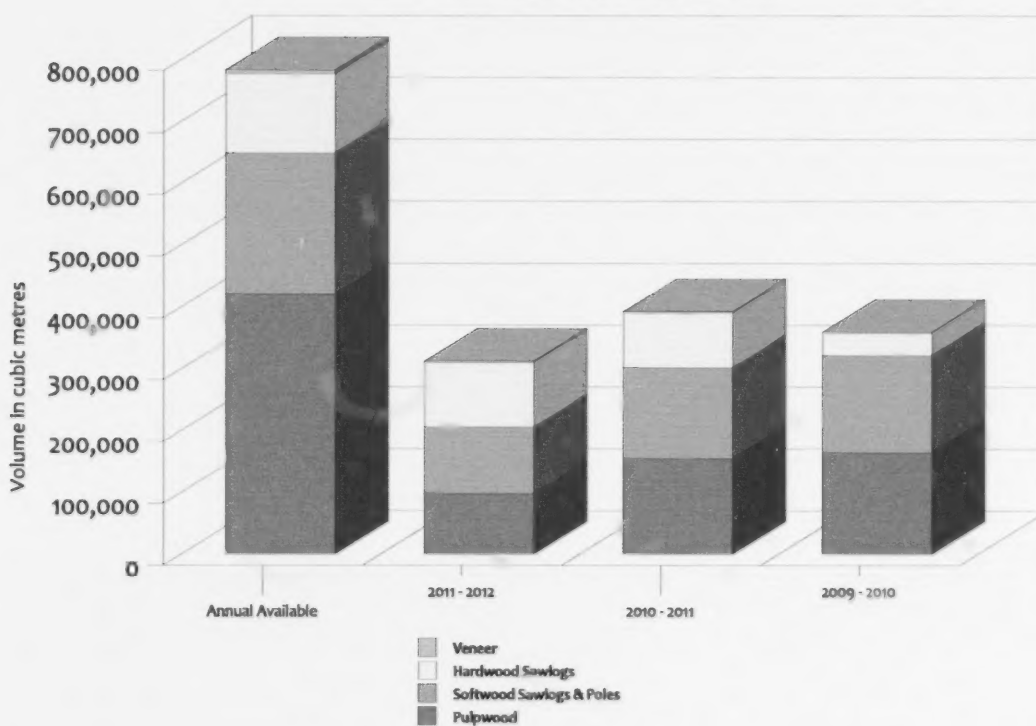
Reduced home construction in the U.S., the cost of fuel/energy and the value of the Canadian dollar

will result in a difficult 2012-2013 fiscal year for the Algonquin Park forest industry.

W. F. Dombroski Logging Contractors Ltd. of Barry's Bay, ON won the annual Safety Award for the 2011-2012 season. This award is presented annually to the Algonquin Park logging contractor maintaining the best safety record. Employees worked a total of 5,720 person days with no lost time days or medical aids due to work related accidents.

In addition to the safety award, AFA and the contractors administer an "Environmental and Safety Award System" that recognizes positive work practices. Based on the point system, the top logging crews on each contractor operation receive rewards. The hauling and road construction sectors are also recognized for their contributions to the overall results.

## Annual Harvest Levels





**HARVESTING AND THE STATEMENT OF OPERATIONS:**

Operating revenues for the year were \$20,212,097, which represents a decrease of \$462,000 or 2.2% compared to 2010-2011. Demand for forest products decreased by 20.4% during the year but higher unit selling prices were achieved resulting in the smaller overall decreases to product sales. Standing timber sales increased in 2011-2012 as a result of two open market projects undertaken.

"Other" includes approximately \$1,710,000 (\$1,810,000 in 2010-2011) of provincial road maintenance funding which was reimbursed to AFA for maintenance activities performed. Amounts then reimbursed by AFA directly to the forest industry as reduction to both product sales and standing timber sales amounted to approximately \$437,000 (\$425,000 in 2010-2011). Funding from the Forestry Futures Trust Ontario was reduced by more than \$219,000 over the amounts received in 2010-2011.

Costs for contracted production, direct labour and stumpage although lower than the previous year, resulted in a decrease in operating income to \$2,158,637 as compared to \$2,212,505 in the previous year. Operations planning costs associated with our Environmental Management System, CSA certification and the FMP process were \$143,499 as compared to \$131,683 in the previous year.

Administration costs for the year were \$1,989,747 which represents a decrease of \$122,965 or 5.8% compared to 2010-2011. The decrease is primarily related to decreased costs associated with salaries and benefits and reduced amortization of capital assets.

**FOREST RENEWAL FUND**

The method of accounting for Crown Stumpage reflects the requirements of the Crown Forest Sustainability Act. The forest renewal portion of the Crown Stumpage Matrix is retained by the Authority, in trust for the Crown, and is to be used to fund eligible forest renewal work on a cost recovery basis. The forest renewal revenue of \$1,266,834 (\$897,695 in 2011) represents amounts actually charged by the Ministry to customers during the year for renewal fund purposes. Higher product renewal rates

effective April 1, 2011 more than compensated for the reduced volumes, to contribute to the year over year increase in revenue.

Actual allowable forest renewal expenditures incurred during the year amounted to \$1,733,542 as compared to \$1,886,479 in 2011. This is the seventh consecutive year that a current year shortfall has been incurred resulting in a loss of \$222,053 (\$410,960 in 2011). We expect this trend to reverse itself once market demand improves.

**FINANCIAL**

The Statement of Financial Position disclosure reflects disclosure requirements affecting not-for-profit organizations, such as the Authority, recommended by the Canadian Institute of Chartered Accountants. Funds received in advance of the planned expenditure are disclosed as "Deferred Contributions" and amounts once referred to, in a single disclosure component, as "Retained Income" have been disclosed as three separate components of 'Net Assets'. This disclosure clarifies the restricted/unrestricted nature of our net asset position.

At March 31, 2012 our cash was \$1,009,164 higher than the prior year balance. Our receivables were lower than the March 31, 2011 balances by \$2,005,230. As receivable balances were collected, liabilities were settled and cash balances were increased.

An effort was made at the end of the production season to increase inventory levels for spring deliveries and this initiative resulted in an increase in inventories of \$143,133.

March 31 payables and accruals were lower by \$769,443 compared to 2011 as a result of having available cash on hand to settle accounts on a more timely basis. Also included in the \$1,808,165 balance is approximately \$437,000 (\$425,000 in 2010-2011) of provincial road maintenance funding that was reimbursed to AFA for maintenance activities performed and then reimbursed by AFA directly to the forest industry in June 2011.

The Renewal Account balance of \$2,500,000 (\$2,500,000 in 2011) remains well above the minimum required balance of \$1,500,000.

	<u>DATE OF APPOINTMENT</u>	<u>CURRENT TERM'S EXPIRATION DATE</u>
<b>CHAIR (Past):</b>		
<b>Hugh Christie</b> Etobicoke, ON	September 8, 2005	December 31, 2011
<b>CHAIR (Present):</b>		
<b>David Stewart</b> Cobden, ON	February 18, 2009	March 21, 2015
<b>DIRECTORS:</b>		
<b>William Atkinson</b> Sundridge, ON	June 2, 2004	June 1, 2013
<b>William Dickinson</b> Bracebridge, ON	November 10, 2005	December 13, 2014
<b>Karen LeClerc</b> Laurentian Hills, ON	November 10, 2005	December 13, 2014
<b>Don McCormick</b> Huntsville, ON	June 2, 2004	June 1, 2013
<b>Terrence Mullin</b> Killaloe, ON	November 10, 2005	December 13, 2014
<b>David Sharpe</b> Toronto, ON	May 17, 2011	May 16, 2014

## OFFICERS:

**Daniel R. Janke, MBA**  
General Manager

**Timothy K. Doyle, CA**  
Secretary-Treasurer

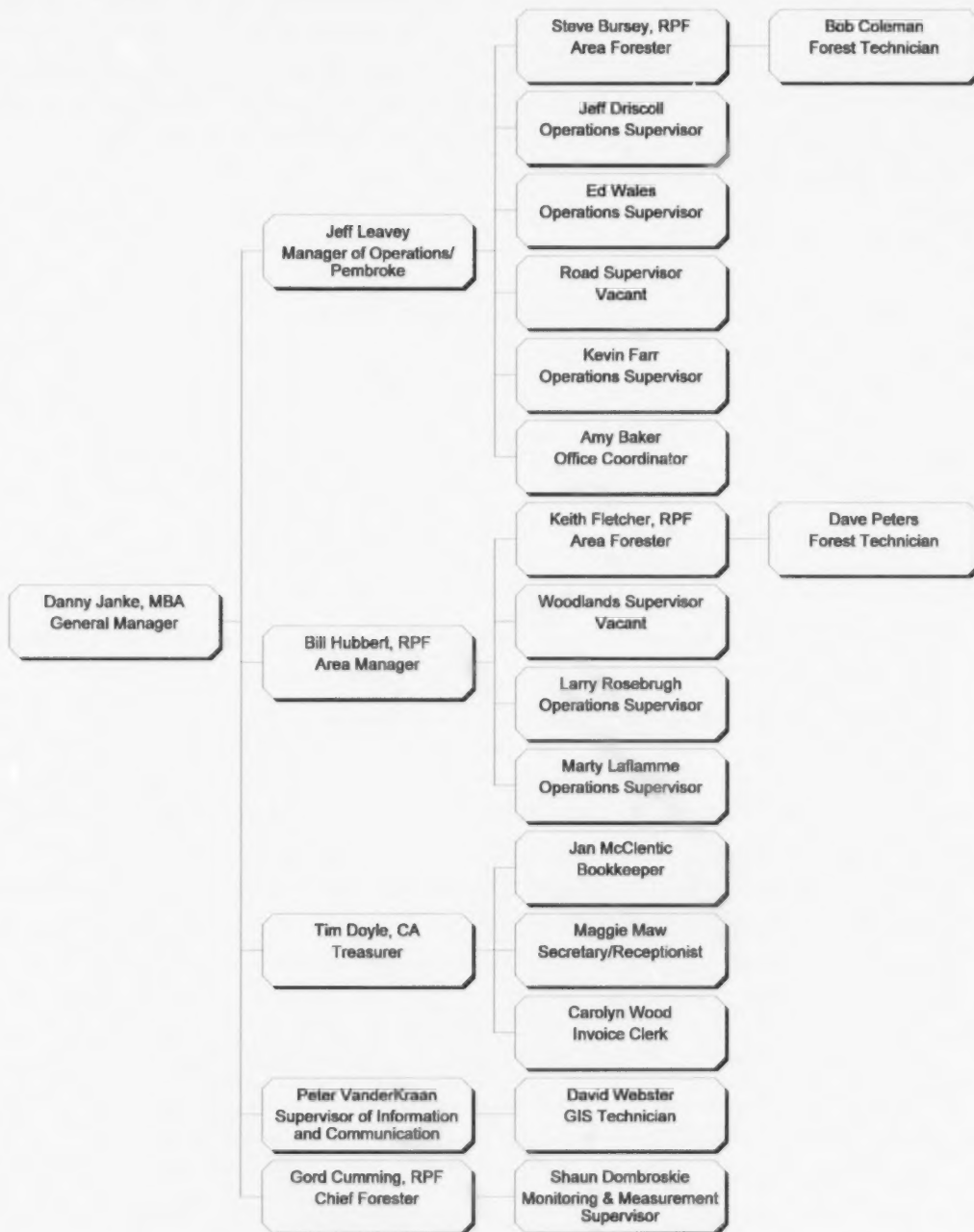
## GENERAL MEETINGS:

May 13 - 14, 2011 Barry's Bay, ON	October 21 - 22, 2011 Pembroke, ON	March 23, - 24, 2012 Huntsville, ON
June 23, 2011 Teleconference	December 2 - 3, 2011 Toronto, ON	
July 22, 2011 Algonquin Park, ON	February 3 - 4, 2012 North Bay, ON	



# Organizational Chart

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## Algonquin Forestry Authority

Year ended March 31, 2012

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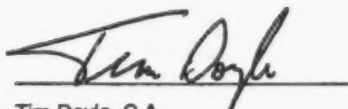
### Management's Responsibility for Financial Information

Management and the Board of Directors of the Algonquin Forestry Authority are responsible for the financial statements and all other information presented in this Annual Report. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgements.

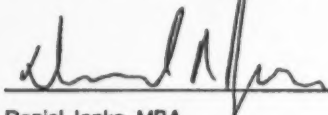
The Algonquin Forestry Authority is dedicated to the highest standards of integrity in its business. To safeguard the Authority's assets, the Authority has a sound and dynamic set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the *Algonquin Forestry Authority Act*.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal control. The Board of Directors meets regularly to oversee the financial activities of the Authority and at least annually to review the financial statements and the external auditors' report thereon, and recommends them to the Minister of Natural Resources for approval.

The financial statements have been examined by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Independent Auditor's Report outlines the scope of the Auditor's examination and opinion.



Tim Doyle, C.A.  
Treasurer



Daniel Janke, MBA  
General Manager

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Office of the Auditor General of Ontario  
Bureau du vérificateur général de l'Ontario

*Independent Auditor's Report*

To the Members, Algonquin Forestry Authority,  
and to the Minister of Natural Resources

I have audited the accompanying financial statements of the Algonquin Forestry Authority, which comprise the statement of financial position as at March 31, 2012, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Algonquin Forestry Authority as at March 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario  
June 28, 2012

Gary Peall, CA  
Deputy Auditor General  
Licensed Public Accountant

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# ALGONQUIN FORESTRY AUTHORITY

## Statement of Financial Position

March 31, 2012, with comparative information for 2011

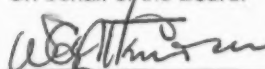
	2012	2011
<b>Assets</b>		
Current assets:		
Cash	\$ 2,542,566	\$ 1,533,402
Accounts receivable	6,243,238	8,248,468
Inventory	503,739	360,606
Prepaid expenses	1,962	1,962
	9,291,505	10,144,438
Capital assets (note 3)	389,035	401,592
	\$ 9,680,540	\$ 10,546,030

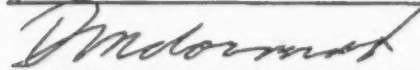
## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,038,722	\$ 1,808,165
Contractors' performance holdbacks	72,656	111,485
Due to Consolidated Revenue Fund	156,461	460,137
Deferred contributions (note 4)	436,818	405,032
	1,704,657	2,784,819
Obligation for employee future benefits (note 5)	441,287	418,771
Deferred capital contributions (note 6)	178,726	155,460
	2,324,670	3,359,050
Net assets:		
Restricted - Forest Renewal Fund (notes 7 and 8)	2,500,000	2,500,000
Invested in capital assets (note 9)	210,309	246,132
Unrestricted - General Fund	4,645,561	4,440,848
	7,355,870	7,186,980
	\$ 9,680,540	\$ 10,546,030

See accompanying notes to financial statements.

On behalf of the Board:

  
Director

  
Director

# ALGONQUIN FORESTRY AUTHORITY

## Statement of Operations

Year ended March 31, 2012, with comparative information for 2011

	General Fund	Forest Renewal Fund	2012 Total	2011 Total
Revenue:				
Product sales	\$ 16,395,977	\$ -	\$ 16,395,977	\$ 16,903,332
Forest renewal activity	-	1,266,834	1,266,834	897,695
Standing timber sales	113,188	-	113,188	36,623
Other (note 10)	2,191,443	244,655	2,436,098	2,836,447
	18,700,608	1,511,489	20,212,097	20,674,097
Expense:				
Direct program costs	13,967,255	1,466,474	15,433,729	16,292,568
Crown timber stumpage charges	2,005,179	-	2,005,179	1,705,741
Public access road maintenance	431,156	-	431,156	291,039
Operations planning	143,499	-	143,499	131,683
Wood measurement	39,897	-	39,897	40,561
	16,586,986	1,466,474	18,053,460	18,461,592
Operating income	2,113,622	45,015	2,158,637	2,212,505
Administrative and other:				
Salaries and benefits	1,351,049	206,369	1,557,418	1,643,872
Amortization of capital assets	159,016	39,453	198,469	233,091
Office supplies and other	94,901	89	94,990	94,736
Office rent	41,870	12,710	54,580	54,071
Directors' allowances	26,238	-	26,238	29,920
Insurance	16,010	6,416	22,426	22,352
Staff travel and training	15,208	2,031	17,239	16,982
Public relations	17,240	-	17,240	16,458
Consulting, legal and miscellaneous	1,147	-	1,147	1,230
	1,722,679	267,068	1,989,747	2,112,712
Excess (deficiency) of revenue over expenses before the undernoted	390,943	(222,053)	168,890	99,793
Recovery of penalties and interest on GST assessment	-	-	-	34,262
Excess (deficiency) of revenue over expenses	\$ 390,943	\$ (222,053)	\$ 168,890	\$ 134,055

See accompanying notes to financial statements.

# ALGONQUIN FORESTRY AUTHORITY

## Statement of Changes in Net Assets

Year ended March 31, 2012, with comparative information for 2011

	Invested in Capital Assets	Restricted - Forest Renewal Fund	Unrestricted - General Fund	2012 Total	2011 Total
Balance, beginning of year	\$ 246,132	\$ 2,500,000	\$ 4,440,848	\$ 7,186,980	\$ 7,052,925
Interfund transfer (note 8)	-	182,600	(182,600)	-	-
Excess (deficiency) of revenue over expenses (note 9)	(135,335)	(182,600)	486,825	168,890	134,055
Investment in capital assets (note 9)	99,512	-	(99,512)	-	-
Balance, end of year	\$ 210,309	\$ 2,500,000	\$ 4,645,561	\$ 7,355,870	\$ 7,186,980

See accompanying notes to financial statements.



# ALGONQUIN FORESTRY AUTHORITY

## Statement of Cash Flows

Year ended March 31, 2012, with comparative information for 2011

	2012	2011
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenses	\$ 168,890	\$ 134,055
Adjustments for:		
Amortization of capital assets	198,469	233,091
Amortization of deferred capital contributions	(63,134)	(45,854)
Gain on sale of capital assets	(250)	(29,634)
Obligations for employee future benefits	22,516	(38,377)
	326,491	253,281
Change in non-cash working capital:		
Accounts receivable	2,005,230	(2,260,004)
Inventory	(143,133)	(2,557)
Prepaid expenses	-	3,185
Accounts payable and accrued liabilities	(769,443)	619,509
Contractors' performance holdbacks	(38,829)	50,300
Due to Consolidated Revenue Fund	(303,676)	276,685
Deferred contributions	31,786	238,395
	1,108,426	(821,206)
Cash flows from financing activities:		
Capital contributions received	86,400	107,325
Cash flows from investing activities:		
Acquisition of capital assets	(185,912)	(288,073)
Proceeds on sale of capital assets	250	29,634
	(185,662)	(258,439)
Increase (decrease) in cash	1,009,164	(972,320)
Cash, beginning of year	1,533,402	2,505,722
Cash, end of year	\$ 2,542,566	\$ 1,533,402

See accompanying notes to financial statements.

# ALGONQUIN FORESTRY AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2012

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Algonquin Forestry Authority (the "Authority") is a Crown Agency which was established by the Ontario Government on January 4, 1975 under the Algonquin Forestry Authority Act, 1974. The Authority is responsible for forest management in Algonquin Provincial Park and operates on a not-for-profit basis. The Authority is exempt from income taxes under the Income Tax Act and is responsible for forest management in Algonquin Provincial Park.

### 1. Significant accounting policies:

#### (a) Basis of accounting:

The Authority's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

#### (b) Fund accounting:

The General Fund accounts for the Authority's revenue generating and administrative activities. The Forest Renewal Fund accounts for the forest management activities, including silvicultural work.

#### (c) Revenue recognition:

Revenue from product sales and forest renewal charges are recognized when the wood is delivered, and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed and determinable.

The Authority accounts for contributions, which include government grants, under the deferral method of accounting as follows:

Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of a period are accrued. Grants relating to future periods are deferred and recognized in the subsequent period when the related activity occurs.

Unrestricted contributions are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the period in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on the same basis and at rates corresponding to those of the related capital assets.

Sundry other income is recognized when earned.

# ALGONQUIN FORESTRY AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

## 1. Significant accounting policies:(continued)

### (d) Inventories:

Inventories, which consist of harvested wood not yet delivered to customers, are measured at the lower of cost and net realizable value with cost being determined on the first-in, first-out basis. Cost includes all acquisition costs incurred in bringing inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

### (e) Capital assets:

Capital assets are stated at cost. Amortization is provided on the straight-line basis over their estimated useful lives, using the following annual rates:

Asset	Rate
Automotive equipment	25%
Portable steel structures	20%
Data processing equipment	20%
Technical equipment	10%
Furniture and fixtures	10%
Trailers	10%
Leasehold improvements	10%

The cost of bridges and access roads is amortized over the estimated number of operating seasons for which the bridges and roads are to be used, with a maximum amortization period of 10 years. Forest renewal assets are amortized on the same basis and at the same rates as the assets mentioned above.

### (f) Financial instruments:

The Authority accounts for its financial assets and liabilities in accordance with Canadian generally accepted accounting principles. The financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the statement of financial position at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

# ALGONQUIN FORESTRY AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

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## 1. Significant accounting policies:(continued)

### (f) Financial instruments:(continued)

Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in the statement of operations; available-for-sale financial instruments are measured at fair value with unrealized changes in fair value recorded in the statement of changes in net assets until the investment is derecognized or impaired at which time the amounts would be recorded in the statement of operations.

In accordance with the Canadian generally accepted accounting principles, the Authority has undertaken the following:

- (i) Designated cash as held-for-trading, being measured at fair value.
- (ii) Accounts receivable are classified as loans and receivables, which are measured at amortized cost.
- (iii) Accounts payable and accrued liabilities and contractors' performance holdbacks are classified as other financial liabilities, which are measured at amortized cost.

No financial statement recognition is given to embedded derivatives or non-financial contracts with derivative characteristics.

The Authority also complies with CICA 3861, "Financial Instruments - Disclosure and Presentation", for the presentation and disclosure of financial instruments and non-financial derivatives.

The Authority has selected to account for transactions as at the trade date.

### (g) Employee future benefits:

The Authority provides termination benefits to qualifying employees. The Authority accrues its obligations under this benefit plan as the employees render the services necessary to earn the benefit.

# ALGONQUIN FORESTRY AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

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## 1. Significant accounting policies:(continued)

### (g) Employee future benefits:(continued)

Defined contribution plan accounting is applied to a multi-employer defined benefit plan for which the Authority has insufficient information to apply defined benefit plan accounting.

### (h) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include determination of the allowance for doubtful accounts receivable. Actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in the statement of operations in the year in which they become known.

## 2. Future accounting policy changes:

The Public Sector Accounting Board ("PSAB") has issued new accounting standards for government not-for-profit organizations. The Authority would be classified as a Government NPO ("GNPO") as its accounts are consolidated with those of the Province of Ontario and meets the criteria to be a GNPO. PSAB will allow GNPOs to choose either the Public Sector Accounting ("PSA") Handbook or the PSA Handbook supplemented by the inclusion of the 4200 series of standards from the Canadian Institute of Chartered Accountants ("CICA") Handbook - Accounting into the PSA Handbook as Sections PS 4200 to PS 4270. These standards are effective for fiscal years commencing on or after January 1, 2012. The Organization will be selecting PSA plus the 4200 series of the PSA Handbook and will first report under these standards in its financial statements for the year ending March 31, 2013. The Authority is currently in the process of evaluating the potential impact of adopting these changes.

# ALGONQUIN FORESTRY AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

## 3. Capital assets:

			2012	2011
	Cost	Accumulated amortization	Net book value	Net book value
Bridges and access roads	\$ 5,346,800	\$ 5,344,864	\$ 1,936	\$ 26,725
Portable steel structures	654,578	440,192	214,386	201,445
Forest renewal assets	354,180	323,239	30,941	63,411
Automotive equipment	385,164	261,766	123,398	84,148
Technical equipment	199,564	186,760	12,804	15,411
Data processing equipment	149,267	146,675	2,592	5,703
Furniture and fixtures	83,358	82,213	1,145	2,201
Leasehold improvements	44,803	43,392	1,411	1,846
Trailers	13,690	13,268	422	702
	<b>\$ 7,231,404</b>	<b>\$ 6,842,369</b>	<b>\$ 389,035</b>	<b>\$ 401,592</b>

## 4. Deferred contributions:

Deferred contributions represent unspent resources received from the Ministry of Natural Resources in the current period and which relate to expenses of future periods. Changes in the deferred contributions balance are as follows:

	2012	2011
Public access road maintenance:		
Balance, beginning of year	\$ 175,598	\$ 166,637
Add: contributions received in the year	300,000	300,000
Less: amount spent in the year	(158,899)	(291,039)
Balance, end of year	316,699	175,598
Other park-related projects:		
Balance, beginning of year	229,434	-
Add: contributions received in the year	-	229,434
Less: amount spent in the year	(109,315)	-
Balance, end of year	120,119	229,434
	<b>\$ 436,818</b>	<b>\$ 405,032</b>



# ALGONQUIN FORESTRY AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

## 5. Employee future benefits:

### (a) Multi-employer pension plan:

The Authority's full-time employees participate in the Public Service Pension Fund (PSPF) which is a defined benefit pension plan for certain employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF, determines the Authority's annual payments to the PSPF. As the sponsor is responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from the statutory actuarial funding valuations are not assets or obligations of the Authority. The Authority's annual payments of \$110,243 (2011 - \$150,607) are included in salaries and benefits in the Statement of Operations.

### (b) Termination benefits:

The Authority provides termination benefits to qualifying employees. All full-time employees qualify for a severance payment equal to one week of salary for each year of continuous service with the Authority, to a maximum of one-half of the employees' annual salary. The total obligation for severance payments vested amounts to \$441,287 (2011 - \$418,771) at year end.

### (c) Non-pension post-retirement benefits:

The cost of other non-pension post-retirement benefits is the responsibility of the Province, a related party, and accordingly is not accrued or included in the Statement of Operations.

## 6. Deferred capital contributions:

Deferred capital contributions related to capital assets represent the unamortized amount of grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2012	2011
Balance, beginning of year	\$ 155,460	\$ 93,989
Additional contributions received	86,400	107,325
Less amounts amortized to revenue	(63,134)	(45,854)
	\$ 178,726	\$ 155,460

# ALGONQUIN FORESTRY AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

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## 7. Forest renewal fund:

Effective April 1, 2002, the Authority renewed its 20 year agreement with the Ministry of Natural Resources, a related party, to perform forest management activities, including silvicultural work. Funding, on a cost recovery basis, for these activities is derived from stumpage charges levied under the Crown Forest Sustainability Act and grants from the Forestry Futures Fund.

The agreement also requires the Authority to maintain a minimum balance of \$1,500,000 in the Forest Renewal Fund.

## 8. Interfund transfer:

The Board of Directors has approved, by resolution, that any loss incurred in the Forest Renewal Fund resulting from forest renewal activity expenses exceeding revenue, net of related capital asset amortization, during the year which cannot be funded by the Forest Renewal Fund without causing the Forest Renewal Fund balance to fall below \$2,500,000 shall be funded by the General Fund.

## 9. Investment in capital assets:

(a) Investment in capital assets is calculated as follows:

	2012	2011
Capital assets	\$ 389,035	\$ 401,592
Amounts financed by:		
Deferred contributions	(178,726)	(155,460)
	<u>\$ 210,309</u>	<u>\$ 246,132</u>

# ALGONQUIN FORESTRY AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

## 9. Investment in capital assets: (continued)

(b) Change in net assets invested in capital assets is calculated as follows:

	2012	2011
Deficiency of revenues over expenses:		
Amortization of deferred contributions related to capital assets	\$ 63,134	\$ 45,854
Amortization of capital assets	(198,469)	(233,091)
	\$ (135,335)	\$ (187,237)
Net change in investment in capital assets:		
Purchase of capital assets	\$ 185,912	\$ 288,073
Amounts funded by:		
Deferred contributions	(86,400)	(107,325)
	\$ 99,512	\$ 180,748

## 10. Road maintenance funding:

Included in General Fund Other Revenue is revenue of \$1.71 million (2011 - \$1.81 million) received by the Authority pursuant to an agreement with the Ontario Ministry of Natural Resources. The purpose of the agreement is to provide the Authority with reimbursement of road construction and maintenance costs on eligible primary and secondary forest access roads where access to those roads is not limited to the forest industry. A portion of the Ministry funding was passed on to the Authority's customers through a rebate allocated on the basis of sales volumes. In fiscal year 2012, \$436,700 (2011 - \$424,600) was passed on to the Authority's customers.

## 11. Remuneration of appointments:

Total remuneration of the Board members of the Authority was approximately \$11,700 during the fiscal year (2011 - \$13,700).

# ALGONQUIN FORESTRY AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2012

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## **12. Financial instruments:**

Unless otherwise noted, it is management's opinion that the Authority is not exposed to significant interest, currency or credit risks arising from its financial instruments. The fair value of the Authority's financial instruments approximate their carrying values, unless otherwise noted.

## **13. Capital management:**

The Authority defines net assets as capital. The Authority manages its capital to have sufficient resources to satisfy its liabilities as they become due and to provide the services for which it is constituted in a consistent and quality manner. The Ministry of Natural Resources requires the Authority to maintain a minimum balance of \$1,500,000 (2011 - \$1,500,000) in the Forest Renewal Fund and the Authority has complied with this requirement.

## **14. Available credit facilities:**

As part of its financial arrangements, the Authority has negotiated a line of credit in the amount of \$1,000,000 with its banker. The line of credit is unsecured and any amount drawn down bears interest at the bank's prime rate minus .50%.

## **15. Comparative figures:**

Certain 2011 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

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## The Algonquin Forestry Authority

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